

Message Text

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PAGE 01 OECD P 17863 01 OF 03 101554Z

46

ACTION EUR-12

INFO OCT-01 EA-06 IO-10 ISO-00 AF-06 ARA-06 NEA-10 EURE-00

AID-05 CEA-01 CIAE-00 COME-00 EB-07 FRB-03 INR-07

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PAGE 02 OECD P 17863 01 OF 03 101554Z

LIMITED OFFICIAL USE SECTION 01 OF 03 OECD PARIS 17863

PASS AID AND TREASURY

E.O. 11652: N/A

TAGS: EAID, OECD, EFIN

SUBJECT: JULY 7-8 MEETING OF AD HOC HIGH LEVEL GROUP ON MEMBER/LDC ECONOMIC RELATIONS

1. SUMMARY: DELEGATES REVIEWED THEIR ATTITUDES TOWARD WIDE RANGE OF CONSTRUCTIVE MEASURES WHICH COULD BE TAKEN OR WERE UNDER CONSIDERATION IN AREAS OF FOOD AND AGRI-CULTURAL DEVELOPMENT, MARKET ACCESS FOR LDC MANUFACTURED GOODS, TRANSFER OF RESOURCES, AND INDUSTRIAL AND TECHNOLOGICAL COOPERATION. IN SUMMING UP, CHAIRMAN (ROBERT, FRG) TRIED TO HIGHLIGHT WHERE MOST MEMBERS SHARED POSITIVE ATTITUDES. ROBERT SUGGESTED THAT PRIORITY BE GIVEN TO INCREASING AID TO AGRICULTURE, PARTICULARLY THROUGH IFAD; IMPROVEMENT OF GSP (AT LEAST BY THOSE WITH EXPERIENCE UNDER NATIONAL SYSTEMS); 5TH IDA REPLENISHMENT, AND INCREASED CONSULTATION WITH LDC'S ON INDUTRIAL AND TECHNOLOGICAL COOPERATION, NOTING THAT LAST OF THESE WAS AREA WHERE MOST WORK NEEDED TO BE DONE TO FLESH OUT POSSIBILITIES. HE ALSO GAVE CONSIDERABLE STRESS TO A TRUST FUND UNDER THE IMF. COMMODITIES AREA WAS LEFT FOR DISCUSSION BY OECD HIGH LEVEL GROUP ON COMMODITIES. THERE WAS, HOWEVER, CONSIDERABLE DISCUSSION OF EXPORT EARNINGS STABILIZATION UNDER FINANCING PROPOSALS. DISCUSSION REVEALED THAT EC MEMBERS OPPOSE A GLOBALIZATION OF THE LOME-STABEX ARRANGEMENT. THERE WAS CONSIDERABLE SUPPORT FOR AN EXPANDED IMF COMPENSATORY FINANCING FACILITY. FRENCH AND BELGIANS WERE SQUEAMISH AS TO WHETHER OR NOT INTEREST OF GERMANS, U.S. AND OTHERS IN EARNINGS STABILIZATION WAS A DODGE TO AVOID ACTION ON PRICE STABILIZATION, I.E., COMMODITY NEGOTIATIONS. WE WILL HAVE TO PLAY THIS CAREFULLY IF XCSS ON JULY 18 TAKES UP EARNINGS STABILIZATION. CHAIRMAN EXPECTS TO DISTRIBUTE FIRST DRAFT OF GROUPS PRELIMINARY REPORT ON JULY 17 OR 18 BUT WILL MAKE ONLY ORAL REPORT TO XCSS JULY 18. GROUP WILL MEET AGAIN

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PAGE 03 OECD P 17863 01 OF 03 101554Z

TO FINALIZE REPORT JULY 29-30. END SUMMARY.

2. GENERAL DEBATE: GROUP'S GENERAL COMMENTS ON SECRETARIAT PAPER CE/DG(75)3 CONCENTRATED ON ISSUES OF DIFFERENTIATION AMONG LDC'S AND SELECTION OF PRIORITES. WITH RESPECT TO FORMER, FRANCE, AUSTRALIA AND TURKEY TOOK VIEW THAT SELECTING POOREST FOR ASSISTANCE EMPHASIS WAS EITHER DIFFICULT OR POLITICALLY COUNTERPRODUCTIVE,

WHILE REST GENERALLY THOUGHT DIFFERENTIATED APPROACH IN VARIOUS AREAS WAS ESSENTIAL ELEMENT OF A CONSTRUCTIVE RESPONSE TO DEVELOPMENT PROBLEMS WHICH VARIED GREATLY AMONG LDC'S. CHAIRMAN'S READING OF CONSENSUS WAS THAT FACT OF LDC POLITICAL UNITY COULD BE ACCEPTED AT SAME TIME THAT DC'S APPROACH WAS TAILORED TO DIFFERING NEEDS OF PARTICULAR LDC'S. SEVERAL COUNTRIES PROPOSED ADDITION OF MEASURES IN AGRICULTURAL AREA AND OF EXPORT EARNINGS STABILIZATION TO RPIORITY LIST AT END OF PAPER. CONSENSUS APPEARED TO BE THAT PROGRESS WAS NEEDED ON BROAD FRONT, BUT THAT AREAS OF GENERALY COMMON OECD EMPHASIS SHOULD BE IDENTIFIED.

3. FOOD AND AGRICULTURAL DEVELOPMENT: THERE WAS GENERAL AGREEMENT AMONG ALL DELS THAT THIS WAS A PRIORITY AREA FOR POSITIVE AND CONCRETE ACTION: 10 MILLION TON ANNUAL FOOD AID TARGET RECEIVED WIDE SUPPORT. U.S. STRESSED NEGOTIATION OF INTERNATIONAL GRAINS RESERVE SYSTEM IN INTERNATIONAL WHEAT COUNCIL, NOT WAITING FOR MTN. FURTHER EFFORTS TO NEGOTIATE RESERVE SYSTEM RECEIVED SUPPORT FROM DUTCH DEL, WHO ALSO CALLED FOR AGREEMENTS ON MINIMUM PRICES AND USE OF PRODUCTION SURPLUSES, AND ALSO FROM JAPAN, FRG, CANADA, AND ITALY. FRENCH DEL, HOWEVER, FELT THAT STOCKPILES ALONE WOULD NOT IMPROVE WORLD FOOD SECURITY AND CALLED FOR ACTION TO STABILIZE FOOD PRICES. AUSTRALIAN DEL WAS ALSO NEGATIVE RE ACTION ON FOOD STOCKPILING ALONE. US DEL (BOEKER) AND DUTCH DEL FELT STOCKPILES SHOULD BE KEPT PRIMARILY IN DC FOOD-PRODUCING COUNTRIES, WHEREAS OTHER DELEGATIONS, INCLUDING CANADA, GERMANY, AND SWEDEN, SUPPORTED ASSISTING LDC'S (THROUGH FAO) TO BUILD AND HOLD THEIR OWN STOCKPILES, ESPECIALLY FOR EMERGENCY USE. THERE WAS WIDE AGREEMENT THAT MORE ASSISTANCE SHOULD BE DIRECTED LIMITED OFFICIAL USE

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PAGE 04 OECD P 17863 01 OF 03 101554Z

TOWARD INCREASING FOOD PROCUCTION IN LDC'S, ALTHOUGH A NUMBER OF MEMBERS PREFERRED NOT TO BE TIED TO COMMITMENT TO ACTUALLY DOUBLE SUCH ASSISTANCE, AS SUGGESTED BY DAC CHAIRMAN. MOST DELEGATES SUPPORTED THE IFAD AS VEHICLE FOR ATTRACTING ADDITIONAL ASSISTANCE TO AGRICULTURE, ATHOUGH WHEN CHAIRMAN ATTEMPTED TO CONCLUDE THAT THERE WAS GENERAL SUPPORT FOR FUND, FRANCE AND BELGIUM OBJECTED. CHAIRMAN ALSO CONCLUDED THAT MAJORITY OF FUNDS PLEDGED TO IFAD SHOULD BE DISBURSED VHROUGH EXIST-ING CHANNELS AND THAT ONLY LIMITED AMOUNT OF FUNDS SHOULD BE DIRECTLY HANDLED BY FUND ITSELF, TO WHICH SWEDEN DISAGREED. US SUGGESTED THAT SUPPORT FOR SUSTAINED FOOD AID CONTRIBUTIONS AND INCREASED AID TO AGRICULTURAL SECTOR BE LINKED TO SUPPORT FOR CGFPI, WHICH WILL BE VEHICLE FOR ELICITING DESIRED AGRO-POLICY CHANGES

FROM LDC'S. MANY AGREED, AND SWEDEN DEMURED. CHAIRMAN'S SUMMARY NOTED PRIORITY ACCORDED TO FOOD AND AGRICULTURE DEVELOPMENT AREA BY GROUP AND POINTED OUT EMPHASIS ON: (A) SUSTAINING FOOD AID; (B) INCREASING FOOD SECURITY THROUGH STOCKPILING (INCLUDING LDC STOCKS) AND EARLY WARNING SYSTEM; (C) INCREASING ASSISTANCE FOR LDC FOOD PRODUCTION WITH SUPPORT FOR CGFPI, AND ESPECIALLY FOR IFAD.

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PAGE 01 OECD P 17863 02 OF 03 101634Z

46

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PAGE 02 OECD P 17863 02 OF 03 101634Z

LIMITED OFFICIAL USE SECTION 02 OF 03 OECD PARIS 17863

4. MARKET ACCESS FOR LDC MANUFACTURED GOODS: ALL DELS TOOK GENERALLY POSITIVE APPROACH TO IDEA THAT BETTER MARKETACCESS AND COOPERATION WITH LDC'S IN MTN WAS GOOD POTENTIAL AREA FOR IMPROVING DC/LDC RELATIONS. THERE WAS CONSIDERABLE SKEPTICISM, HOWEVER, ESPECIALLY ON PART OF FRENCH AND UK, THAT GROUP COULD DO ANY USEFUL WORK IN THIS AREA GIVEN THE NEED TO AVOID COMPLICATING OR CONFUSING ONGOING NEGOTIATIONS IN GENEVA. IMPROVEMENT OF GSP WAS GENERALLY AGREED TO BE DESIRABLE OBJECTIVE (TURKS TOOK USUAL POTSHOT AT US RE "NON-ECONOMIC" CRITERIA FOR SELECTION OF BENEFICIARIES), AND THIS WAS ONE OF AREAS INCLUDED BY CHAIRMAN IN LIST OF PRIORITIES FOR FOLLOW-UP. FULL RECOGNITION WAS GIVEN IN MEETING THAT US NOT IN POSITION TO CONSIDER THIS AT PRESENT. GROUP MAY SUGGEST TCWP GROUP ON PREFERENCE EXAMINE ISSUE. US DEL INDICATED POSSIBLE INTEREST IN IDEA OF STRENGTHENED STANDSTILL COUPLED WITH PARALLEL COMMITMENTS FROM MORE ADVANCED LDC'S AND EXPRESSED US RESERVATIONS ON ASSUMPTIONS UNDERLYING SECRETARIAT'S PROPOSALS IN TEXTILE FIELD. SUBJECT OF "PARALLEL COMMITMENTS" AND HOW LDC'S SHOULD CONTRIBUTE TO MTN WAS GENERALLY THOUGHT WORTH POSSIBLE FURTHER EXAMINATION AT LATER STAGE. CHAIRMAN FELT GROUP SHOULD CONTINUE DISCUSSION OF THIS AREA IN ORDER TO TRY TO IDENTIFY POSSIBLE "IMPULSES" IT MIGHT GIVE TO MTN. SECRETARIAT WILL TRY TO CATALOG BENEFITS TO LDC'S FROM MTN.

5. TRANSFER OF RESOURCES: NECESSITY OF EXPANDING VOLUME OF ODA, RECOGNIZED AS BEST MEANS TO TRANSFER RESOURCES TO LDC'S, WAS EMPHASIZED BY MANY DELEGATES. THERE WAS LONG DISCUSSION OF UTILITY OF VOLUME TARGETS WITH MAJORITY IN FAVOR OF REAFFIRMING 0.7 PERCENT TARGET. US DEL EXPRESSED DISSATISFACTION WITH ATTEMPTS TO SET TARGETS, SUCH AS 6 PERCENT GROWTH FOR ALL LDC'S AND 0.7 PERCENT GNP FOR AID, WHICH HAD PRACTICALLY NO CHANCE

OF BEING ATTAINED AND CONCENTRATED LDC ATTENTION ON DONOR COUNTRY SHORTCOMINGS. BOEKER SAID US PREFERRED
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PAGE 03 OECD P 17863 02 OF 03 101634Z

APPROACH OF LAYING STRESS ON STEP-BY-STEP FORWARD PROGRESS IN SPECIFIC AREAS, RATHER THAN REAFFIRMATION OF TARGETS. CANADA WELCOMED STATEMENT AS REFLECTING POSITIVE US ATTITUDE, WHEREAS SWEDEN AND NORWAY EXPRESSED CONCERN. GERMANY WAS ONLY OTHER DELEGATION WHICH PREFERRED TO NOT EMPHASIZE TARGETING. THERE WAS CONSENSUS, HOWEVER, THAT AID PERFORMANCE WAS WHAT REALLY MATTERED. MAJORITY OF DELEGATES MENTIONED NECESSITY OF CONCENTRATING AID ON POOREST, MOST-SERIOUSLY-AFFECTED LDC'S WHEREAS FRANCE, AUSTRALIA AND SWEDEN AGAIN EXPRESSED RESERVATIONS TO THIS PRINCIPLE. DELEGATES AGAIN REVIEWED THEIR POSITIONS IN SUPPORT OF VARIOUS PROPOSED MULTILATERAL FUNDS. PRIMARY IMPORTANCE OF IDA V WAS EMPHASIZED BY MAN DELS, INCLUDING U.S. FRANCE REACTED TO CHAIRMAN'S STATEMENT THAT THERE WAS WIDE SUPPORT FOR IMF TRUST FUND BY SAYING ITS POSITION DEPENDED ON AGREEMENT ON IMF GOLD. THERE WERE WARNINGS VOICED RE PROLIFERATION OF RELATIVELY SMALL MULTILATERAL FUNDS. U.S. DEL SAW THIRD WINDOW AS EVENTUALLY BEING CONSOLIDATED WITH IDA AND IMF SUBSIDY ACCOUNT WITH TRUST FUND.

6. EXPORT RECEIPTS STABILIZATION: CANADA, GERMANY, NORWAY, SWEDEN, NETHERLANDS, AND UK SUGGESTED AT BEGINNING OF MEETING THAT CONSIDERATION OF EXPORT RECEIPTS STABILIZATION SCHEMES SHOULD BE INCLUDED IN PRIORITY WORK PROGRAM OF GROUP. U.S. DEL INDICATED SUPPORT FOR LIBERALIZATION OF IMF COMPENSATORY FINANCING FACILITY, SAYING THIS WAS ONE AREA WHERE SOME AUTOMATICITY IN FINANCING MIGHT BE JUSTIFIED ON DEVELOPMENT GROUNDS. CANADIANS AND DUTCH SUPPORTED THIS, WITH DUTCH REMARKING HOWEVER THAT INCREASED PRICES FOR COMMODITIES, TO EFFECT LARGER RESOURCE TRANSFER, SHOULD BE FIRST PRIORITY. BELGIUM, AUSTRALIA, GERMANY AND NETHERLANDS NOTED THAT LOME-TYPE STABEX ARRANGEMENT COULD NOT BE EXPANDED ON WORLDWIDE BASIS. (FRENCH MADE SAME POINT TO U.S. DEL PRIVATELY.) SEVERAL DELS, HOWEVER, INDICATED SUPPORT FOR EXPANDED FINANCING FOR EARNINGS STABILIZATION THROUGH THE IMF. WHILE NOT DIRECTLY OPPOSING EXPANSION OF IMF FACILITY, FRENCH AND BELGIANS INSISTED SCHEMES OF THIS SORT HAD TO TAKE SECOND PLACE TO ATTEMPTS TO STABILIZE COMMODITY
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PAGE 04 OECD P 17863 02 OF 03 101634Z

PRICES, WHICH SHOULD BE DISCUSSED IN HIGH LEVEL GROUPS ON COMMODITIES. FRENCH TACTICAL GAME IS TO TRY TO PRECLUDE POSITIVE OECD-WIDE POSITION ON EARNINGS STABILIZATION EXCEPT IN THE CONTEXT OF A COMPREHENSIVE COMMODITY PROGRAM STRESSING COMMODITY AGREEMENTS. OTHERS, WISHING TO CONSIDER ISSUE ON ITS OWN MERITS, RAISED IT UNDER MULTILATERAL FINANCING PROPOSAL. AS RESULT OF DIVERGENCE OF VIEWS, CHAIRMAN'S SUMMARY MADE ONLY LOW-KEY MENTION OF INTEREST OF SOME DEALS IN INVESTIGATING

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PAGE 01 OECD P 17863 03 OF 03 101704Z

46

ACTION EUR-12

INFO OCT-01 EA-06 IO-10 ISO-00 AF-06 ARA-06 NEA-10 EURE-00

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PAGE 02 OECD P 17863 03 OF 03 101704Z

LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 17863

ISSUE WHICH TENDED TO UNDERSTATE GROUP'S INTEREST IN FURTHER FOLLOW-UP. NORWEGIANS ASKED THAT GROUP'S FINAL REPORT REFLECT GREATER STRESS ON EARNINGS STABILIZATION AND CHAIRMAN RESPONDED VAGUELY BUT POSITIVELY.

7. U.S. GAVE GENERAL SUPPORT TO CONSIDERATION OF LIMITED STEPS TO FACILITATE ACCESS TO CAPITAL MARKETS FOR BETTER-OFF LDC'S. ONLY CANADA AND SWITZERLAND SUPPORTED LOOKING INTO MULTILATERAL GUARANTEE FUND FOR LDC BORROWING. U.K., SWEDEN AND FRANCE HAD NEGATIVE REACTIONS TO SECRETARIAT'S SUGGESTIONS. GROUP, THEREFORE, LIMITED ITSELF TO NOTING WORK OF DEVELOPMENT COMMITTEE ON ISSUE. LIKEWISE, THERE WAS LITTLE SENTIMENT FOR EXPLORING MEASURES TO IMPROVE INTERNATIONAL INVESTMENT CLIMATE ALTHOUGH SOME DELS DID FEEL FURTHER EFFORTS TO IDENTIFY LDC-RELATED PROBLEMS IN THIS AREA WOULD BE DESIRABLE. ATTITUDE OF TRADITIONAL CREDITOR COUNTRIES TOWARDS DEBT RESCHEDULING WAS DOMINANT IN GROUP, WHILE MEMBERS APPEARED TO BE WILLING TO DISCUSS WAYS OF STRENGTHENING INTERNATIONAL SURVEILLANCE AND COOPERATION ON DEBT PROBLEMS. SWEDEN, WITH DUTCH SUPPORT, AGAIN PUSHED FOR MORATORIUM ON ODA DEBT SERVICE DUE FROM MSA'S AND LLDC'S, BUT RECEIVED NO SUPPORT. DELEGATES IN GENERAL SUPPORTED A STRENGTHENED VOICE FOR LDC'S IN IFI'S WHILE AT SAME TIME EXPRESSING CONTINUED ADHERENCE TO PRACTICE OF LINKING VOTING RIGHTS TO FINANCIAL STRENGTH OF MEMBERS.

8. INDUSTRIAL AND TECHNOLOGICAL COOPERATION: SECRETARIAT AND CHAIRMAN FELT MEMBERS EXHIBITED POSITIVE ATTITUDE TOWARDS TRYING TO MEET REASONABLE LDC DEMANDS IN THIS AREA; HOWEVER, IT WAS NOTED THAT WHOLE RANGE OF ISSUES TREATED IN SECRETARIAT PAPER WAS DIFFICULT AND THAT MUCH MORE WORK WOULD BE NEEDED TO SPECIFY NEW ACTIONS MEMBERS

MIGHT CONSIDER. GERMAN DEL GENERALLY SUPPORTED IDEAS IN SECRETARIAT PAPER, AND EC DEL MADE PITCH FOR REINFORCING INDUSTRIAL COOPERATION WITH LDC'S, AS AT LAST MEETING. JAPAN AND FRANCE CALLED FOR FURTHER STUDY, AND LIMITED OFFICIAL USE

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PAGE 03 OECD P 17863 03 OF 03 101704Z

CANADIAN DEL NOTED NEGATIVE REACTION OF OTTAWA TO MANY IDEAS IN SECRETARIAT'S PAPER. LIMITED CAPACITY OF GOVERNMENTS TO EFFECT CHANGES IN TRANSFER OF TECHNOLOGY IN HANDS OF PRIVATE SECTOR (CONTRARY TO LDC ASSUMPTIONS) WAS NOTED. CHAIRMAN'S SUMMARY TENDED TO GIVE MORE EMPHASIS TO FOLLOW-UP WORK BY GROUP IN THIS AREA THAN WAS JUSTIFIED IN VIEW OF LIMITED DISCUSSION BY GROUP AND DIFFICULTY DELEGATES HAD IN TRYING TO BE MORE SPECIFIC. ROBERT ALSO TENDED TO OVERSTATE CASE FOR POSITIVE ATTITUDE TOWARD DISCUSSION OF LIMA DECLARATION, EAGERNESS TO WORK ON UNCTAD'S CODE OF CONDUCT FOR TRANSFER OF TECHNOLOGY (SUPPORTED BY EC AND CANADA ONLY), AND READINESS OF MEMBER GOVERNMENTS TO TAKE STEPS TO AT LEAST DAMPEN EXPANSION IN INDUSTRIES OF INTEREST TO LDC'S (MENTIONED ONLY BY GERMANY AND SUPPORTED BY TURKEY). CHAIRMAN'S CALL FOR FURTHER ATTENTION BY GROUP TO AREA WAS, HOWEVER, SUPPORTED BY JAPAN.

9. ON JULY 10, SECRETARIAT IS ISSUING COPY OF CHAIRMAN'S ORAL SUMMARY OF MEETING WHICH AS NOTED ABOVE WAS NOT FULLY ACCEPTABLE TO ALL MEMBERS. ONLY CHANGE ROBERT AND COMMITTEE AGREED TO MAKE, HOWEVER, WAS TO SPECIFY -- IN RESPONSE TO U.S. GRIPE -- THAT CONSIDERATION OF IMPROVEMENTS IN GSP SHOULD BE BASED ON ACTUAL EXPERIENCE WITH REGIONAL AND NATIONAL SYSTEMS (THE U.S. LACKING ANY SUCH EXPERIENCE). SUMMARY WILL BE FORWARDED SEPTEL. FIRST DRAFT REPORT OF GROUP, WHICH WILL BUILD ON CHAIRMAN'S SUMMARY, WILL DESCRIBE LDC PROBLEMS IN FIVE AREAS ORIGINALLY SELECTED BY GROUP, OUTLINE MEMBERS' ATTITUDES ON MEASURES DEALING WITH THEM AND INDICATE WHERE PRIORITY ATTENTION SHOULD BE DIRECTED. THIS DRAFT REPORT IS SCHEDULED TO BE CIRCULATED ON JULY 17TH OR 18TH AND FINALIZED BY GROUP JULY 29-30. IT IS, THEREFORE, UNLIKELY THAT THIS SECRETARIAT DRAFT WILL BE AVAILABLE FOR CONSIDERATION BY XCSS ON JULY 18. ROBERT, HOWEVER, WILL MAKE ORAL REPORT TO XCSS BASED ON HIS SUMMING-UP IN NORTH-SOUTH GROUP.

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